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ATTACHMENT E

UNITED STATES OF AMERICA
FEDERAL COMMUNICATIONS COMMISSION

MGC COMMUNICATIONS, INC.,	:	
Complainant,	:	
v.	:	File No. EAD 99-02
AT&T CORPORATION,	:	
Respondent.	:	

445 12th Street S.W.
Washington, D.C.

Monday, June 28, 1999

The HEARING in this matter began at 9:10 a.m. pursuant to notice.

BEFORE:

JUDGE JOSEPH CHACHKIN
Administrative Law Judge

(Witness excused)

MR. MERON: Your Honor, I call Dr. Warren Bolton.

JUDGE CHACHKIN: Would you raise your right hand?

Whereupon,

FREDERICK R. WARREN-BOLTON

was called as a witness and, having been first duly sworn, was examined and testified as follows:

JUDGE CHACHKIN: Please be seated.

DIRECT EXAMINATION

BY MR. MERON:

Q Dr. Warren-Bolton, before I begin, do you need to setup that pad?

A Yeah, I am an economist. So, unfortunately, you get graphs. It's very difficult to do that in the air. On the other hand, I'm not very good at setting up these things.

Q Could you please state your full name and business address for the record?

A The full name is Frederick Reginald Warren-Bolton. My business address is Micra, 1155 Connecticut Avenue, Washington, D.C. 20008.

Q Could you briefly walk us through your educational background and experience in the area of economics relative to this proceeding?

A Well, the area of economics that's relevant for this proceeding, the field is called industrial organization which is the study of applying price theory and applied price theory to large organizations' behaviors and markets.

My degrees, I have a B.A., M.A., M.P.A. and Ph.D. degrees in economics from Yale and from Princeton. I then taught at Washington University in St. Louis, industrial organization, regulation and antitrust courses until I got tenure. Then came to Washington to serve with the antitrust division. I was the Chief

Economist and Deputy Assistant Attorney General, although I'm not an attorney, from 1983 to 1989.

Then left to join the American Enterprise Institute as is somewhat traditional. Then taught at Princeton until I got bored. Then in 1991 some fellow alumni and I from the Antitrust Division started a consulting and research organization called MiCRA, spelled M-i-C-R-A, in Washington, and we've been doing that since 1991.

Q What is your expertise and experience specifically with regard to telecommunications?

A Well, my, my dissertation was on vertical integration, and this is, this is in our terminology a vertical matter. Two-standing, vertical relationship with each other. They're introduced across a market.

My dissertation was on vertical integration, and specifically a chunk of it was on vertical integration

telecommunications. Part of the offshoot of that was that when the Antitrust Division went looking for people to testify in *U.S. V. AT&T*, I appeared to be one of the very economists who had not already been hired by AT&T, and as a result I was retained by, I was retained by the Department of Justice and wound up testifying in the AT&T case in front of Judge Green.

As a young assistant professor I had absolutely no idea what I was involved in, and my field of expertise was Western Electric, the relationship between Western Electric and the operating companies and the kinds of incentives and effects that happen when you have vertical integration.

So, I continued to sort of work in the area, and of course after arriving at the Justice Department in '83, from '83 to '89, continued to work on telecommunications matters as an unfortunate fallout from modified final judgment, you know, the

Justice Department found itself continuously involved.

Since leaving the Division, I've served as an expert in several proceedings for AT&T or MCI largely on matters coming out of the '96 Act, 271 issues, TELRIC. I've also worked for the Antitrust Division as a potential expert witness in for example the Bell Atlantic/Nynex merger and the general issue about letting the -- and issues like that.

Q Since leaving the government, have you been a witness exclusively on behalf of private firms, are you still retained by the government as a witness on its behalf occasionally?

A No, for whatever reason I still do a lot of work for the agencies. I recently testified for the AFTC in the Staples/Office Depot merger which we won. Most recently for the states and for the DOJ in the -- as an expert -- economics expert witness in the

Microsoft trial which has just gone into recess, thank God.

Q The pending Microsoft trial?

A Yes.

MR. MERON: Your Honor, I'd like to move to qualify the witness as an expert in the field of economics.

JUDGE CHACHKIN: Any voir dire?

MR. HEYMAN: Is Mr. Canis?

MR. CANIS: That's fine. No objection.

JUDGE CHACHKIN: No objection? All right.

BY MR. MERON:

Q What material have you reviewed in preparation for your testimony here today?

A Well, I've looked at -- just general background, I've looked at the agency's complaint, AT&T's response and other documents that follow along with that.

Q Now, I know you filed an expert statement that lays out your basic

conclusions in this case. Based on your expertise as an economist in the field of industrial organization, can you briefly state for us what your main conclusions are?

A Well, I think they begin first with, with the fact that with respect to originating access, there's a rather specific market failure, or what economists refer to as a market failure, in the market for originating access. As a result of that market failure, a LEC or CLEC will have an incentive to try to charge prices for originating access that greatly exceed costs or what economists would regard as competitive levels.

In those circumstances, if indeed the FCC does, does decide to, to -- basically that AT&T or any IXC can, can no longer basically reject originating access services, the effect of that is going to provide an incentive for LEC's and CLEC's to charge prices that are very high. In fact, even

above what, what we regard as the monopoly level.

On the other hand, if, if the, if the FCC decides that AT&T and other IXC's simply have the right to decline service -- decline originating access services, then that will put a constraint on the maximum price that I would expect to see in the market coming out of, out of negotiations for originating access.

Q Would you say you think the prices would be constrained, to what level do you think roughly they'd be constrained?

A I think that -- as, as we can go through, I think that they would, they would roughly be constrained to the monopoly level. The, the unusual aspect of the market failure for originating access is that you can get prices here which actually are above the profit maximizing monopoly level, and at the very least, allowing AT&T to -- not to have to accept originating access should, should

limit prices to the monopoly level.

Q Now, you've used the phrase market failures. What is the specific market failure which you conclude is present in this market?

A Well, in originating access, the, the market failure is, is that AT&T is not allowed to charge different prices to its -- for long distance depending on the price for originating access that is charged by the particular LEC or CLEC that, that has the customer.

As a result, it not only cannot charge different prices depending on originating access, but of course if a CLEC or LEC decides to raise the price for originating access, the IXC cannot respond by raising the price just to, just to the customers of that IXC. I'm sorry, the customers of that LEC.

So, that the relationship -- so that you attenuate the relationship between

the prices that are being charged by the, by the LEC and, and the impact that it has on the LEC's customers.

Q What is the source of this market failure?

A Well, it's my understanding that it's not a technical reason. It's not that an IXC could not in principle charge simply different prices depending on the originating access fee.

I can imagine as a business matter it might create some problems if you are a national firm advertising a national price. You might have to say something like, you know, "My price is, you know, 6 cents a minute plus whatever your local CLEC charges for originating access," but that's, that's not an insuperable problem.

It's my understanding that the reason why AT&T and other IXC's cannot reflect originating access charges directly to the customers of the CLEC or LEC is

because the FCC basically says that you are not allowed to do it, and that in return is, is because of congressional mandates. So, it's a legal requirement as opposed to a technical requirement.

Q Now, why would this requirement that you just described lead CLEC's to try to charge at least supercompetitive rates for access?

A Well, the, the basic problem is that when a CLEC raises the price for originating access, unless the -- unless it's the case that, that the IXC's -- all of an IXC's customers are just for that CLEC, what it means is that the IXC faced with an increase in the price of originating access for some of its customers has to basically spread that cost out over all of its customer.

So, it's in a situation in which if, if the CLEC -- one CLEC raises the price for some of its customers, then all that it

can do is spread that out, pass that through to all customers.

So, in effect, what happens is that when a, when a CLEC or a LEC raises its originating access price, what it's able to do oddly enough, it's, it's able to basically tax consumers of long distance that subscribe to other LEC's.

The, the effects of its actions are external to each other, and I think we can go through an example if you want. Well, this also illustrates the effects of the size of the CLEC, and I probably should try to put this sideways, but I can't.

Let's suppose that we have three sizes of a LEC. How about a really big one, sort of like the combination of what Southwestern Bell is going to be when it finished digesting PacBell and Ameritech and, and all the others. Say for example that on average --

Q Assuming that that in fact happens.

A Assuming that that happens. That's right. Yes. Well, you guys would know better than I would that it's going to happen.

Well, let's suppose that we've got a very large LEC, sort of a, you know, a Southwestern Bell, and what I'm basically going to do here is basically going to do here is, is put in numbers for illustrative purposes just so we understand the principle.

Let's suppose that for a Southwestern Bell type, for the LEC, say for example 25 percent of the, of the -- of Southwestern Bell's customers have that particular LEC, IXC; and then we'll take say a smaller sized, you know, with one percent; and then we could take a very, very small, like a CLEC or a very small CLEC and maybe, you know, one-tenth of one percent of I'll say AT&T's customers subscribe to that particular CLEC.

We can ask the question what would

happen under those conditions, let's call this a CLEC or small -- actually probably one-tenth of one percent probably makes it a large CLEC. MGC is probably somewhere down here. You can ask the question, what would happen in this world if the ILEC in question decided to raise the price of originating access by some amount.

So, say for example, what we did is we took the price of originating access and we increased it by ten cents, and suppose that that was passed through by the IXC. Okay? But the point is, of course, it's going to pass it through to everybody.

Then you could ask the question, for a, for a ten cent increase in, in originating access price, by how much is the price of long distance per minute. This is like cents per minute. How much is that price going to increase for the long-distance customer of that CLEC? The answer is pretty straightforward. If you're a great big huge

ILEC, okay, the ten cent increase that you imposed is going to result in about a two and a half cent increase in prices to your customers.

If you're a moderate or small-sized LEC at one percent, then what happens is that you're going to have a ten cent increase and your customers will only see a, you know, one-tenth of one cent increase in the price of long distance. Of course, if you're way down here, I guess it's, you know, one-one-hundredth of one percent, of one cent increase in the price of, of long distance.

So, what you can see is -- already is that most of the impact -- even for the large LEC most of the impact is going to be borne by other customers. In other words, customers -- ultimately the local exchange customers of LEC's other than the LEC that is raising the originating access fee. By the time you get down to a small LEC, virtually all of it is going to be external.

Another way of thinking of this is what percentage of any price increase is going to be passed onto people other than your own customers.

If you sort of think about what that looks like, sort of think of it like the external percentage, or some people think of it like the tax, external tax, if you're at 25 percent, and 75 percent of that ten cents is going to be passed on to other people. It's going to be externalized. Ninety-nine percent, if you're a one percent LEC. If you have an absolutely tiny as in this example share of the IXC's customers, 99.9 percent of the price increase that you impose is actually going to be passed on to your own customers.

So, what this creates, is as you can see, is oddly enough the smaller you are, the greater your incentive to raise the price of originating access because the less -- the impact on you. That's how you get out to

here. There's virtually no effect of your own actions in terms of your own customers and the response of your own customers.

Q How would you expect these relative incentives you just described in terms of size of LEC to affect the maximum price that they would set for originating access?

A Well, when I was thinking about this question I thought the, the easiest way to get to this answer is to go through thought experiment, and the little thought experiment is suppose that we had a super-LEC after finishing off Ameritech, you know, they just kept going east and west and we wound up with, I guess let's put him over there, let's call him a super-LEC.

We'll reverse the AT&T decision in other words. Put them all back together again and -- and this LEC has 100 percent. So, there's only one LEC left in the United States, and it has ten percent.

Now, for this guy, if we ask the

question, if he raise his originating access price by ten cents and it's passed on, well, then, you know, his customers will see the full ten cent increase. Okay? Another way of saying is that the external tax rate is zero percent. But our super-LEC here still has, like all of them, has monopoly power in the sense that they control access to that customer.

So, what we could do is we could look at what the price would look like if you had a super-LEC and then ask -- you know, compare that. Now, to do that I've got to go back to sort of Econ 101 which is I have to draw a picture of a graph, so those of you who hated Econ 101 can take a little break, but this is like, you know, the first week.

So I'm sure that this doesn't cause too much pain, I just want to do a demand curve and marginal cost curve, and it's our old friend. What we're going to have over here is the price of originating access, and

and the usual monopoly solution is that it looks for the point which maximizes its profits from originating access. So, those of you who remember this, there's a, there's a marginal revenue curve that does down through there. So this is the profit maximizing price that we see.

So, just to put some numbers on it, let's suppose that a super-LEC that was the only LEC in town would decide to charge a price of say five cents per minute for originating access, you know. Maybe its marginal cost is, you know, you know, three-tenths of one cent or something like that, and that's the profit maximized equilibrium. Okay?

So, now that we take a look at what happens if we got our super-LEC up here, now let's start asking the question, what starts happening if instead of being a super-LEC, he is just a big LEC, and then we'll get into a tiny LEC. Okay?

Well, as you sort of think about it, if, if you start from marginal costs, you raise the price from the competitive level up from marginal cost and you ask what happens to the responsiveness of consumers if we have a Southwestern Bell super-LEC, of course, and you only get 75 -- 75 percent of it is passed on, so we only get 25, two and a half cent, if you like, increase in the price of, of -- to the Southwestern Bell customer. So what happens is that from the point of view of the -- his customers, what he sees is, is only a quarter of the effect that he'd otherwise see.

So, if this is our super-LEC, and then we ask what's going to be the response of the Southwestern Bell customer when he raises originating access, we're only going to see, if you like, a quarter of the price effect, so our Southwestern Bell guy is going to look like over here. Okay? The one percent person is going to be -- I don't know

if I can do this sideways, but the one percent guy is going to be like right around here, and our tiny little CLEC, for all intents and purposes, there isn't going to be any market response.

There will be no constraint in terms of the normal response of customers, and that's normally the way in which prices by firms are constrained, is by the elasticity of the demand of customers, customers decide not to buy long distance or to buy less long distance,and then it's not profitable.

So, what essentially is going on here is that the, the relationship between the prices charged by the small CLEC and the effect that it seems in its own market is virtually disappeared. This eliminates the normal, shall we say, limitation in monopoly markets. Monopolists don't charge infinite prices. Our monopolists of our super-LEC basically gets to a point where he says I

could raise it above five cents, but I guess in Nixon's immortal words, "It would be wrong."

If I raise the price above five percent, consumers will respond by cutting back on the quantity of long distance, so it just isn't worth it. I'll make less money by charging a price after five cents. But that constraint simply is not going to operate on the smaller ones. So, we have this rather odd effect which is the smaller the CLEC, the greater the incentive to raise prices.

Q Now, is there any that you could prevent this kind of market failure from occurring?

A Well, you could, you could prevent it in at least one of two ways. I mean, the first and most obvious way is the FCC could intervene and essentially regulate all originating access prices.

That's obviously one way it could be done. It's my understanding, though, that

the FCC is trying to move away from solutions like that. So the alternative would be to try to use market forces to the extent possible to, to constrain this kind of pricing.

Q Assuming you would, you would use market forces, what specifically do you have in mind?

A Well, the, the first and most obvious step is, is basically to make exchange voluntary; to, to allow each side to decide that if they do not want to participate in this transaction, they don't have to participate in the transaction. This puts a -- shall we say a natural limit on the prices that either side can charge.

Economists are used to worlds in which there's voluntary exchange. We, we don't deal normally with, with markets in which people don't -- normally, if people are in markets it's because they want to be in markets. So when we look at -- flip here.

When we look at how prices are going to evolve in a market, what we basically do is we look at the range of possibilities, and the range of possibilities is bounded by what we might call each side's reservation price which is, you know, how high or how low would the price have to go before one or the other side simply decides I don't want to play in this game.

The range of reservation prices thus puts a range, you know, on the kinds of prices that can be observed or will be observed in the market in which there's voluntary exchange. In order to get outside of that range you have to make -- basically, you have to draft your partner.

So, in this case, the -- a reasonable way of thinking of it would be to say that, that we'd have a reservation price, or the LEC and the CLEC, and a reasonable way to think of that is might as well be the marginal cost of providing originating

access. Now, one good idea is putting a number just so we can work with some numbers, and let's suppose that that's three-tenths of one cent per minute.

Then at the other end in this bargain we have the reservation price of the IXC, and the reservation price of the IXC, just thinking about it, is most likely going to be the gross margin: the price that it charges for long distance, minus all of its variable costs, not including of course originating access, and let's suppose that's five cents.

What we're saying basically there is that if you charge a price for originating access anything less than five cents, then the IXC could look at that particular customer in isolation and say incrementally at the margin that customer is worth having. If the price of originating access is above five cents or above the gross margin, then you lose money for each one of those

customers.

This is not one of those things where I lose money on each one, but somehow I make it up on volume, you know. It just gets worse the larger the number that you're involved in. The marginal return here, in fact, is negative.

So in a situation of voluntary exchange, what we'd expect to see is that the price that will emerge through negotiation is going to be somewhere between three-tenths and one cent and five cents, and that provides a boundary range for what we're going to observe in a market in which you don't regulate.

Q Now, let's assume that you're dealing as you said with access provider that has monopoly access to those customers. But on the other hand, that there multiple interexchange carriers who purchase the access services. How would you expect bargaining to take place in that situation?

A Well, where you wind up in here is going to depend on, on, if you like, the competitive balance: how many people you've got on each side.

In this particular case, what we have is because there is only access line going into the customer, or coming out of the customer, I guess, we've got one, we've got one supplier, and over here we've got many or several. You've got AT&T, Sprint, et cetera. So, there's a wide range of choice, and, and in terms of providing long-distance service to the individual customer, no one of them is essential. Any one of them can do, can do the job.

So, when you have a situation in which we've got, we've got a reservation price by supplier which is down here, a reservation price from a demander that's up here. If there's only one supplier and many demanders and none of them are essential, then the market price is going to settle in

general pretty close to, and this is just common sense, you know -- it's going to settle pretty close to the maximum amount that, that the buyers are going to pay.

For our purposes, let's say we have a market price -- I'm not saying it's a competitive price. I'm just saying it's the market price of -- I'll just make up a number, just say 4.9 cents per minute. Because there's basically this asymmetric situation, and this is something which I think is, is obviously familiar to the FCC. My understanding is that you've just dealt with a very similar issue in the international settlements where what you had is you have, you know, one foreign carrier basically is the, is the only person on one end, and you have a whole bunch of U.S. Carriers on the other side, and what happens is the foreign carrier can basically play off one American carrier against each other. I think the technical term is rip saw them, and

the result is that the price tends to settle pretty close to the reservation price.

The end result is that prices of course are way above, you know, marginal costs or what most economists think of as competitive prices, and you get a very large subsidy in the international settlements case from U.S. Consumers to foreign carriers. Similarly here, through this process you get a large subsidy from basically other -- consumers of, of other LECs to the particular CLEC that raises the price for originating access.

Q Now, let's say as you're now hypothesizing that one of the IXCs has a right, or all the IXCs I suppose, have a right to choose not to transact, not to engage in the transaction. Is there any danger that, say, one of those IXCs for example if it were AT&T, could use that freedom to, to force the CLEC to accept access prices and would be below the

competitive level?

A No, because as long as you have, you know, a number, several IXCs, partners at this end, none of them are essential, and you have this competitive imbalance. If one IXC should say, well, you know, I want a much lower price, all that the ILEC has to do is simply turn to another IXC and say do you want the business.

Ultimately while an IXC may be free to reject the business, the problem basically is as long as the, as the LEC can turn to another IXC and as long as it's still profitable with the IXC to get that business, the bargaining position here is just, is just very asymmetric. So there really isn't a concern that somehow they're going to drive the price down below, in our example, three-tenths of 1 cent.

Q What would happen if the CLEC had tried to set a price that was so high that none of the IXCs wanted to.

A Well, I mean, you could do that. I mean, I could regard it as shooting yourself in the foot. You can always set a price of originating access that's so high that no IXC wants to deal with you.

If the, if the gross margin -- the highest gross margin -- if the, if the gross margin of the IXC where the highest gross margin is say five cents, and then you try to charge more than five cents, no IXC is going to want to provide long-distance service to your customers, and so you're going to have to sat to your customer, hi, you know, we will send you local exchange service, but the bad news is that, you know, if you buy local enhance service from us, you can't get long-distance service because we're going to charge too much.

That's obviously an outcome that is possible. It seems to be though that it's certainly not an outcome that the FCC has any interest in fostering.

Q Now, let's say that the legal rule is an IXC has a right not to purchase services that they don't want, but that someone has to kind of, if you will, block the traffic. Either the IXC has to block the traffic or the LEC has to not route the traffic. As a matter of economics, who in your opinion should be the one to have to engage in the blocking?

A Well, as a basic principle, I think you start off with saying if you are going to have blocking, it's fairly obvious that if blocking is going to occur, you want it to be done by the person whose cost of blocking is the lowest.

I guess you could call him the -- you want blocking to be done by the most efficient blocker, which, as I understand from the testimonies that I've been listening to this morning and et cetera, I understand that the case is clearly the most efficient blocker here if blocking does occur would be

the LEC.

Q Let's say for purposes of argument that, that both the LEC and the IXC could block, and that they both could block for roughly the same cost. As a matter of economics, do you have an opinion in that scenario as to which of the two should be responsible for the doing the blocking?

JUDGE CHACHKIN: Excuse me. Dan, can you move a little closer to the microphone so we're sure we pick you up?

MR. MERON: I'm sorry. Should I repeat the question?

JUDGE CHACHKIN: Why don't you?

BY MR. MERON:

Q I'm sorry about that. Let's assume for purposes of argument that both the IXC and the LEC are capable of blocking, and let's again assume that they're in fact capable of doing it for the same cost. Do you have an opinion as a matter of economics as to which of the two should be the one

required to do the blocking?

A Yes. Because, because of the asymmetric competitive sort of situation here, when you decide as a legal matter which side has the responsibility for blocking, you're not only deciding who blocks if, if negotiations break down and blocking occurs, but more important even, you're deciding what the terms of the voluntary exchange are going to be.

You're going to affect the negotiations, and so the decision that you make whose responsibility it is to block is going to affect market outcomes and the negotiated outcome even if you never see blocking, and I can just go through an example here.

Q Why don't you?

A Which is thinking again, you know, in terms of the range of reservation prices, the range of possible outcomes, and let's ask the question, suppose that we assigned first

of all the responsibility for blocking to our friend the LEC here. Just to make up a number, suppose that the marginal cost of blocking was one-tenth of one cent.

Then you ask the question what happens to the reservation price of the LEC. Well, now, when the LEC decide that, that I am going to provide service and you ask what's the incremental cost of providing the service, you're comparing the situation where it's blocking versus where it's providing service.

Now, if it was blocking, then it had it incur a cost of one-tenth of one cent in my little example per minute. So, when it goes from blocking to nonblocking, the increase in costs that it incurs is only two-tenths of one cent. So, the reservation price for the LEC moves to the left. All of this kind of makes sense once you think about it which is unfortunate for economists.

Now, the same thing is going to

happen over here. If you assign the responsibility for blocking to the IXC, and let's suppose that the cost of blocking is two cents, then if the IXC is trying to decide, well, do I agree or don't I agree? What's the point at which I say I walk? Then if it blocks, it's going to incur a cost of two cents. If it doesn't block, it gets a revenue of five cents. The difference between the two states of the world is now seven cents. A little French seven. So, my handwriting is pretty bad.

So, what happens basically is when you assign blocking to one party, it moves the reservation price of that party. If you assign it to the LEC, it moves the reservation price down for the LEC. If you assign it to the IXC, it moves the reservation price up for the IXC.

Now, you could say what difference does it make which one, and the answer is, now, you go back to the question of what's

the competitive balance. As you'll recall in the world in which we've got here in which we've got one supplier and many demanders, we said that the market price that's going to come out of this is going to be up towards the reservation price of the buyer.

So, what happens is this. If you assign the, the responsibility of blocking to the LEC, the fact that this is gone to the left -- that that reservation price has fallen, is not going to affect the market price that we observe. But if you assign it to the ILEC, what it does is it moves the reservation price over.

Q I'm sorry, you said to ILEC on the right side?

A I'm sorry. Did I say that? Sorry. IXC.

Q So, this is you?

A Too many I's.

Q Assigned to the IXC?

A Assigned to the IXC. What's going

to happen is that you're going to move the reservation price of the IXC, and since the market price is determined by the reservation price of the IXC, what you're going to do is you're now going to get a market price which is just below that, in our example, 6.9 cents.

So, it makes a real difference who you assign the cost of blocking to. Even if the parties, you know, negotiate or actually settle somewhere in between, there's going to be an effect on the market price. Whether you think that's good or bad depends on whether you think that the price of originating access is too high.

Most economists I think would look at this situation and say, well, we like prices that are close to marginal cost or, you know, as close as we can get to competitive levels, and if they're already significantly above that level, making them even higher, of course, is, A, inefficient,

and B, of course, raises costs and prices of long distance to consumers. So, it's bad for competition and bad for consumers.

Q Now, in terms of economic theory, what would you predict would be? Let's put it this way. How much blocking, if you will, would you expect to see in the real world once a legal rule has been set that enables IXCs not to purchase?

A Well, I would expect to see very little or none. Basically, blocking means that the system has broken down. It's, it's like warfare.

In my experience, with the exception of a few countries like Germany and Serbia, very few companies would -- countries would actually go to war if they knew they were going to lose. So that, so that what happens is that if you have -- if both sides understand, have the same information that's available, then they have a negotiation, they're going to settle somewhere in between.

The only way that you could get blocking in this world is that if one side or the other has unreal expectations. For example, if for some reason the CLEC thought that the gross margin, you know, was ten cents for an AT&T call, and they hung onto that belief, then what would happen is to their surprise, you know, AT&T would block or would cancel service.

Now, presumably those expectations get corrected over time so that in a rational world in which there is, is the rational people negotiating with the information going back and forth, what you expect of course is, is a price to settle somewhere in between because basically this is a deal that both sides have an interest in having go through.

Both sides gain from this transaction, and the only question is that what we'd like to see is we'd like to see that emerges somewhere between those two reservation, so both sides in fact gain from

the transaction.

Q Now, let me ask you this question. It's a little different than the other questions. Could allowing CLEC, say, as a matter of policy to charge supercompetitive or supermonopoly prices, whichever, or prices that generally exceed the cost of the ILEC, say, could, could allowing the CLECs to charge a cost that exceeds the price. Sorry. To charge an access price that exceeds the price that the ILECs charge. Could that be justified on policy grounds as a subsidy to encourage, say, new entry into the local market?

A Well, I think, I think to economists it would be a very -- it's a very poor policy argument, you know. I think that when you're faced with -- I mean, entry is a good thing, but what you want to do is you want to provide a set of pricing signals which will encourage efficient entry.

You know, in this case, if indeed